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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

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INDUSTRIAL PRODUCTION FIGURES

Product	Prod. in 1st half of 1986	1st 6 Mo. 86 as % of same of 85
Elect. (b.kw.hrs)	805	104%
Petroleum (inc. gas cond.)(mil. metric tons)	302	102%
Nat. Gas (b.cu.mtr)	339	107%
Coal (mil. metric tons)	378	104%
Steel (mil. met. tons)	80.4	106%
Fertilizer (mil.tons)	17.5	108%
Metal-cutting tools (mil. rubles)	1,432	111%
Robots (in 1000s)	7.2	125%
Computer Technology (bil. rubles)	929	105%
Tractors (mil. hp)	27.4	105%
Paper (mil. metric tons)	3.1	107%
Cement (mil. metric tons)	67.0	105%
Meat(mil. metric tons)	5.6	108%
Margarine (1000 tons)	774	104%
Watches (mils)	34.8	105%
Radios (mils)	4.4	105%
TV sets (mils)	4.7	102%
Automobiles (1000s)	659	100.1%

HEAD OF LIVESTOCK IN COLLECTIVE AND STATE FARMS
(in millions)

	July 1 1985	July 1 1986	86 as % of 85
Cattle	98.3	99.2	100.9%
Cows	29.8	29.4	98.6%
Hogs	57.9	60.2	103.9%
Sheep & Goats	139.1	142.8	102.6%
Chickens	790	788.1	99.7%

INDUSTRIAL PRODUCTION FIGURES FOR THE FIRST SIX MONTHS OF 1986

For Gorbachev there is some very good news and some somewhat disappointing news in the production

figures for the first half of 1986. Particularly striking is the fact that oil production, June 1986 compared to June 1985, was up 6%. This seems to represent a continuation of the gradual improvement that has taken place beginning in January of this year. When the figures first began to appear, there were many, particularly in the United States, who thought that it was a function of a difference in days worked and extra holidays last year. Now there is no doubt that petroleum production has increased and again, as we have suggested since the January figures came out, this is the fruit of Gorbachev's crackdown on discipline. For the whole six month period, production of petroleum is up only 2.4%, but the odds are strong that next month, when we have the seventh month report, the figures will show that production for the whole seven months will be up 3%. Again, the odds are that pro'uction for the whole year will exceed 600 million tons or 12 million barrels a day, and indeed, now the output will probably reach as high as 610 million tons or 12 and 1/5 billion barrels a day.

The not so good news is that production of steel, although up 6% for the whole six month period, is only up 2% on a June to June basis. Production of coal on a June to June basis is also up only 2%, although for the whole six months, it is up 4%.

Electrical production is up 3.5% for the whole six month period. That would seem to be a reasonable amount, although the Soviets now indicate in their press that the Chernobyl explosion has affected electrical distribution. It certainly would not seem so from the figures, but it may very well be that in the Ukraine the brown outs and shortages have posed a particular problem.

The livestock herds as a whole seem to keep growing. The number of cows is slightly lower than it was on July 1 of last year, and the number of chickens is slightly below what it was. However, the overall increase in cattle, goats and sheep is a change from the conditions of several months ago.

There are some other things that are notable about the report. For example, on a six month basis, foreign trade, that includes both exports and imports combined, is down 4% from what it was a year ago. That reflects the sharp drop in oil prices.

While the six month figures do not show it, there are some signs that the harvest this year may not be as good as was initially expected. There was a fascinating exchange on Soviet television between Ligachev, the number two man in the party, and a group of farmers in the Voronezh region. The announcer introduces the film segment by saying, "Rain is again in short supply." The dialogue with Ligachev and the workers begins with Ligachev asking a question, "So Voronezh is without bread again?" Even though the worker replies, "But we do have bread," the fact that Ligachev asked the question and that it was shown on Soviet television suggests that there has been a drought and as a consequence, some serious problems. This may help to account for our Department of Agriculture's reduction of its estimate.

Finally, given the crackdown that Gorbachev has instituted on drinking, it would be useful to look at the sales of vodka. Those figures have not been released, at least for this present six month period. But there is an additional insight that we can obtain. The Soviets publish production figures for mineral water and non-alcoholic drinks. Mineral water production was up 15% and non-alcoholic drinks, including fruit juices, Pepsi, and Fanta were up 41%. That is further reflected in the retail sales, which show non-alcoholic drink sales rising 28%, mineral water sales rising 22%, and fruit and vegetable juice sales rising 55%.

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CURRENCY FIGURES

Rubles Purchased Per 100	June 1986	July 1986
Austrian shilling	4.53	4.56
UK pound	107.15	104.55
FRG mark	31.82	32.05
US dollar	70.40	69.50
French franc	9.98	10.03
Japanese yen	.425	.433
Italian lira	.0464	.0467
Swiss franc	38.79	39.46

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CHANGE IN DATE FOR THE CHERNOBYL CONFERENCE

To accomodate our speakers, as well as government employees who could not come in September because of the close of the fiscal year, we have shifted the date for the Chernobyl conference to October 6. Again, it is a Monday and will be held at the Harvard Faculty Club. We hope it will not inconvenience anyone who made their plans based on the assumption that it would be the earlier week. However, we are quite excited in that we expect to have some special guests with us. Morris Rosen, an official of the International Atomic Energy Agency who visited the Chernobyl site, expects to be flying over from Vienna especially for the conference. In addition, Dr. Robert Gale of the UCLA Bone Marrow Unit, who has spent a good deal of time in Soviet hospitals, has also indicated he will attempt to join us. It should make for a fascinating discussion.

In addition to the discussion about Chernobyl, Bernard O'Keefe, formerly the chief executive officer of E G and G, Inc., the company called in after the accident at Three Mile Island, will attempt to compare what happened at Three Mile Island with the events at Chernobyl.

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BALANCE OF TRADE FOR THE FIRST QUARTER OF 1986

As had been anticipated, Soviet exports during the first quarter of 1986 dropped. The drop was not as much as one might have expected, however. It amounted to only about 130 million rubles. The main reason for the drop, of course, is the decline in petroleum prices. We will have to wait longer to see exactly what happened to the absolute volume of exports, but everything indicates that the number of tons of petroleum exported also fell.

Even more striking, however, is the fact that Soviet imports dropped so sharply. There was a drop from the industrialized countries of Europe of about 100 million rubles, but even more, the drop from the grain exporting countries amounted to about 700 million rubles. Imports from the United States, which consisted primarily of grain, were half of what they were in the first quarter of 1985. The Soviets also reduced their imports from Argentina.

Undoubtedly the Soviets seem to feel that their grain harvest for 1986 would be considerably improved, and they had cut back their imports. This makes the comment by Ligachev, noted elsewhere in the newsletter, even more significant. If this has been a bad year in terms of weather, the Soviets certainly are going to feel it and may then have to start importing more grain.

In any case, the combined result of a small drop in exports, but a very large drop in Soviet imports results in a trade deficit that is considerably improved from what it was during the first quarter of 1985. It is still a trade deficit, but not nearly as sharp.

THE RUSSIAN RESEARCH CENTER takes no official stand on any economic or political trend. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article, or unless otherwise stated, with those of the editors, Marshall I. Goldman and Catherine Reed. RRC @ 1986

THE BOSTON SUNDAY GLOBE JULY 27, 1986

LETTER FROM CHINA

Deng moves the economy ahead

By Merle Goldman and Marshall I. Goldman
Special to the Globe

PEKING – There is a danger of exaggeration, but a visitor who returns to China after a two-year absence must be forgiven for being overwhelmed at the pace of economic change. China is still a very long way from being Japan or even a South Korea or Taiwan – indeed the poverty of the country is still overwhelming.

But what is new about China is the speed of its development. It is the rate of change that stirs memories of South Korea in the mid-1970s. The changes the Deng Xiaoping leadership has been promising since late 1978 are now becoming clearly visible.

Construction is everywhere. Land that was covered with ramshackled one-story dwellings, four or even two years ago, may now be the site for an ultra-modern hotel or office building. The pace is so fast that downtown Beijing may soon lose much of its traditional flavor. There are up-to-date Sheraton, Marlott and Holiday Inn hotels that almost pass for their counterparts in Hong Kong or Phoenix.

So much construction is not necessarily impressive in and of itself. There is also much construction going on in the Soviet Union, but it generally takes seven to nine years to finish a project. By contrast in China today the pace is much faster.

In Shanghai which until recently has been neglected in favor of Peking, the work is conducted in two or three shifts to make up for lost time. Shenzhen, a Specific Economic Zone, which just four years ago was a village, has become a city packed with new factories, apartments and modern office buildings. In almost every city along the coast, row after row of dwellings are being bulldozed and wide-open streets and new buildings are being built in their place.

The countryside is sharing in the activity. In fact, incomes have shown the sharpest gains in the countryside. For all intents and purposes, the communes have been dissolved. Peasant families now sign contracts with the state to farm land for 15-year periods. Once they pay a tax and quota to the state, the rest of their harvest is theirs to dispose of as they choose. This has unleashed the peasants' harvests and business initiative.

The incomes of most peasants have doubled and even tripled and they have diverted much of their new wealth into improved housing. The countryside is being filled with more and more two-story peasant homes, something quite rate until these new reforms began. Another consequence is that even though the Chinese grain harvest dropped in 1985, China has now become a net exporter of grain, even exporting to the Soviet Union.

Although construction is the most visible sign of growth, equally striking is the spread of enterprises, shops and peddlers operating on a private basis throughout the country. According to one report, the number has increased from 140,000 in 1978 to 18 million in 1985. Relatively few people have gone into manufacturing. After all, China remains a socialist state, with limits as to how many employees a business may hire, although no one seemed to know with certainly just what were the limits.

Though less visible, the economic reforms are also changing the state sector. For example, the director of the Beijing Printing and Dyeing Plant, a textile factory with 3,000 employees, can now decide for himself who to hire, how much to pay them, where to sell a large percentage of his production and where to buy his raw materials. He also has the power to fire his employees.

The government now urges bankruptcy for inefficient enterprises. In a society where everyone has been assured of a guaranteed job and welfare (the Chinese call it the iron rice bowl), firing and bankruptcy are radical concepts.

Just how far the reform has moved is suggested by the fact that in Beijing and Shanghai and a few other large cities, the directors of several of the larger state manufacturers have formed Associations of Manufacturers.

The Beijing unit was established in May 1985 and has representatives from 110 factories. There is a membership committee to evaluate new applicants. In addition to theater and social parties for their wives, they meet to discuss common problems and seek meetings with representatives of the government and the Bank of China to lobby for their interests – more autonomy and better financial arrangements.

In Shanghai there are actually three such groups, including one for younger members – on the order of a Young Presidents Organization in this country, except of course they all manage state-owned enterprises.

What is significant about such groups is that the initiative to create them came not from the state, but from the managers themselves. Normally in communist societies, particularly in the Soviet Union, there is no such thing as an organization outside the framework of the government, particularly one representing the bosses.

Of course, not everything has changed, even along the fast-developing coastal areas. Despite new and unexpected traffic jams, the overwhelming mass of people still travel and move their goods by bicycle, animals and on their backs. Nor have all the reforms been warmly received. Some Party officials express worry about what they see as the drift away from socialism and others, on a more practical note, are distressed because price reform has resulted in a three-fold increase in some food prices and a double-digit increase in the overall level of prices.

Although the central government has delegated more authority to the enterprise, local officials continue to impose all kinds of nuisance taxes and restrictions.

As successful as the Chinese have been, the first steps toward reform were not easy. They came slowly and amid much controversy. Yet the road ahead may be even more difficult, particularly when it comes to integrating the growing private or nonstate sector with the state sector. Already thre are signs that some party leaders, as well as the managers of the state sector, feel their powers and prerogatives are being weakened and have tried to reassert themselves. Still, so far it appears that the rapid increase in economic growth, even if not equally distributed, has generated more supporters than critics.

The biggest uncertainty about the reforms is what will happen when Deng dies. Most Chinese say the reforms have gone so far and are so widely supported that there is no turning back. Others are not so sure. There is a large body of influential party officials who are visibly distressed over what they see as the growing consumerism and materialism in the society.

Whatever does happen, however, all agree that Deng will go down in history as one of the greatest revolutionaries, even if his revolution is not the kind we have come to expect from communist countries in the 20th century.

Merle Goldman is professor of Chinese history at Boston University and associate of the John K. Fairbank Center for East Asian Research at Harvard University. Marshall I. Goldman is Class of 1919 Professor of Economics at Wellesley College and associate director of the Russian Research Center at Harvard.

RUSSIAN RESEARCH CENTER
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CHERNOBYL: HOW THE SOVIET SYSTEM RESPONDED -
Economic, Political, and Social Implications

October 6, 1986

Harvard Faculty Club
20 Quincy Street
Cambridge, MA 02138

9:45 a.m. — **WHAT HAPPENED - THE SCIENTISTS' POINT OF VIEW**

Richard Wilson, Mallinckrodt Professor of Physics, Harvard University

James McKenzie, Senior Associate, World Resources Institute, Washington, D.C.

Morris Rosen, International Atomic Energy Agency, Vienna

11:30 a.m. — **IMPACT ON ENERGY MARKETS**

Ted Shabad, The New York Times, "Prospects for Coal"

12:15 p.m. — SHERRY

12:30 p.m. — LUNCH

1:30 p.m. — **Dr. Carol Sakoian**, Director, International Government Affairs, Conoco, "Prospects for the Petroleum Markets"

2:00 p.m. — **THE MEDICAL AND POLITICAL RESPONSE**

Dr. Robert Gale, University of California at Los Angeles, "Health Implications"

Marshall I. Goldman, Class of 1919 Professor of Economics, Wellesley College and Associate Director, Russian Research Center, Harvard University, "Gorbachev and the Government Reaction to Chernobyl"

WHAT HAPPENED AT THREE MILE ISLAND AND HOW IT COMPARES TO CHERNOBYL

Bernard O'Keefe, President, E G & G

4:45 p.m. ADJOURN

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CHERNOBYL: HOW THE SOVIET SYSTEM RESPONDED --
Economic, Political, and Social Implications

October 6, 1986

Harvard Faculty Club
20 Quincy Street
Cambridge, MA 02138

Please enroll me as a participant:

Name _____
Last First Middle

Title/Position _____

Affiliation/Organization _____

Mailing Address _____
Street Apt. #

_____
City State Zip code

Home Phone ( ) _____ Business Phone ( ) _____

ADMISSION: $150.00 (one hundred fifty dollars) per participant.
PLEASE MAKE CHECKS PAYABLE TO HARVARD UNIVERSITY.
Fee covers all meals and beverages indicated in program

Harvard affiliates may attend the conference (no meals) without charge, but must register in advance.

HOTEL RESERVATIONS: If you would like us to make hotel reservations for you, please complete the following information. We will send you a confirmation letter with hotel rate, location and phone number.

Size: ( ) Single ( ) Double

Date(s): _____

Please return completed form and check to:

Catherine Reed, Program Coordinator, Russian Research Center, Harvard University, 1737 Cambridge Street, Cambridge MA 02138
(617) 495-4037